Prince Edward Island

CANADA

# PEI LENDING AGENCY

## Annual Report 2000-2001

102-04854/

# Message of the Minister

The Honourable J. Léonce Bernard
Lieutenant Governor of Prince Edward Island
PO Box 2000
Charlottetown, PE C1A 7N8

May It Please Your Honour:

Pursuant to the *PEI Lending Agency Act* and as Minister designate, it is my privilege to submit the Annual Report of the PEI Lending Agency for the period ending March 31, 2001.

Respectfully submitted,

Patricia J. Mella
Provincial Treasurer

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*Barrett and MacKay*
*Camera Art*
*Agriculture and Forestry*

# Message of the Board Chair

The Honourable Patricia J. Mella
Provincial Treasurer
Province of Prince Edward Island
PO Box 2000
Charlottetown, PE C1A 7N8

Honourable Minister:

On behalf of the Board of Directors of the PEI Lending Agency, I take pleasure in presenting you with this, the Annual Report of the agency for the fiscal year ending March 31, 2001.

This report is being presented pursuant to the *PEI Lending Agency Act* and Regulations.

Sincerely,

W.R. Noonan, Chairman
Board of Directors
PEI Lending Agency

# Message of the Chief Executive Officer

Mr. William Noonan, Chairman
Board of Directors
PEI Lending Agency
PO Box 1420
Charlottetown, PE C1A 7N1

Dear Mr. Noonan:

I take great pleasure in presenting the Annual Report of the PEI Lending Agency for the fiscal year ending March 31, 2001.

This is the third year-end since the agency's incorporation and the portfolio growth has again continued. At March 31, 2001, there was an increase by slightly over $37 million in outstanding loans, which is 38 percent over the previous year, with the growth experienced in every sector of Island businesses. Included in this figure is $22,620,290 in outstanding loans to the aerospace industry, which is a new area of funding eligibility within the agency. With significant potential for job creation as well as direct and spin-off benefits to the Island's economy, the agency will continue to maintain a support role, whenever possible, to assist in sustaining current operations as well as allow for necessary expansion and growth to this industry.

Regardless of the particular challenges faced by businesses over the past year, such as the slow down within the North American economy and the more localized potato wart crisis, just to name a few, the dollars in arrears as a percentage of the agency's loan portfolio has decreased on a year-over-year basis. It is always difficult to predict, however, if this positive picture will be repeated into the next fiscal year. Existing clients of the agency may, at any time, be caught in an industry downturn or crisis. Should this occur, others in those affected economic sectors, having difficulty obtaining conventional financing due to apprehension within the banking industry, will also inevitably turn to the Lending Agency. We are then regularly solicited to provide the necessary assistance to allow those businesses to continue operating until markets rebound or industries stabilize.

With the province's focus expanding to investment in new areas, such as, information technology, aerospace and life sciences, as well as diversification toward new agriculture and fisheries species/products, agency staff will be presented with many challenges from a risk-management perspective. Where assets consisting of little or highly specialized equipment or intellectual property are the primary loan security, and with minimal historical performance indicators, the familiar parameters of loan risk-evaluation are continually changing.

The technical expertise within the line departments and PEI Business Development Inc. continue to play a lead role in piloting the Island's future direction. As conventional lending organizations are predominantly profit oriented, the Lending Agency is

frequently called upon to provide the necessary loan financing to support the province's current economic objectives. While the importance of creating and sustaining employment, as well as offering ground floor support to new enterprises or industries are without doubt valuable considerations, they will remain balanced with the agency's assessment to the potential for future viability.

To this end, agency staff and management will continue to strive to maintain that balance; to support Island businesses and industries, while doing our best to manage and preserve the Province's investment.

Respectfully submitted,

P.A. Wilson
Chief Executive Officer

# Mandate of the PEI Lending Agency

The mandate of the PEI Lending Agency is to provide financial assistance, through loan agreements, in support of the government's economic development strategy and to support enterprises that demonstrate reasonable viability, though are unable to access private-sector financing or the terms and conditions required to meet their needs.

The agency is to operate as a responsible, professional lender, basing decisions or recommendations on sound lending practices. Under the authority of the *PEI Lending Agency Act* and Regulations, the board of directors, consisting of six private sector and two government designated directors, provides agency staff with consistent guidance and direction. The board strives to meet the needs of Island industries and individual businesses throughout the constantly shifting priorities and challenges which may evolve as a result of local provincial issues or from various constraints imposed by national and international markets.

Though the general mandate of the agency will remain unchanged, the focus may be altered in favour of specific industries, at government's direction, or through identifiable gaps which may emerge in commercial bank financing. With their singular objective of profitability and with policy decisions which are generally nationally directed, there will always be areas or gaps left by the banks that the agency will be needed to fill.

As the province's lending arm, the agency will undoubtedly continue to collaborate with other government departments and corporations to structure financial programs to promote new development or to assist industry-specific difficulties. The agency continues to support the needs of our primary industries for capital purchases, expansion and operational expenses as well as encourages financing of non-traditional, potentially prosperous new enterprises.

The agency is unquestionably a higher risk lender and often lender of last resort. Where any business can continue to demonstrate a potential for viability, the agency is generally supportive to providing assistance as it will maintain current employment while offering the operator the opportunity for recovery. This is a role the agency has historically provided and numerous businesses have been ultimately successful due to this support in difficult times. Also, differing from the commercial banks' profit requirement, the agency's mandate is to strive for a break-even operation. If this can be achieved, there are numerous benefits to the province, in various capacities, but no cost to the taxpayer for the service. By sustaining businesses and maintaining employment, it reduces the drain on already stressed provincial and federal support programs. In addition, revenue from business, personal and sales taxes is maintained. These are all valuable considerations and are weighed, along with various other factors, when decisions are made by agency staff.

# Corporate Profile

The PEI Lending Agency was established to provide both term and working capital loans to eligible borrowers in the following sectors:

## Small Business

Definition

*Small Business includes any person that:*

*(i) carries on business, or intends to carry on business, in the province;*

*(ii) purchases a finished product from a supplier and resells that product without alteration; and*

*(iii) does not employ more than 100 employees; or*

*(iv) did not have annual gross sales exceeding $10 million in the fiscal year immediately preceding an application made pursuant to Section 9 of the act.*

This program is designed to meet the special needs of the Island's small business community and entrepreneurs for business acquisitions, expansions and debt consolidation.

## Agriculture

Definition

*Agriculture includes any person that:*

*(i) carries on business, or intends to carry on business, in the province;*

*(ii) owns or will acquire farm assets with the loan proceeds pursuant to the act or the regulations; and*

*(iii) is actively engaged in farming or intends to work actively at producing farm products.*

It is the objective of the agency to encourage increased production of both established and new variety agricultural products, as well as improved marketing facets and techniques for PEI agricultural products. This may include better storage, handling, grading and packaging facilities.

## Tourism

Definition

*Tourism includes any person that:*

*(i) carries on business, or intends to carry on business, in the province, and*

*(ii) operates a business, other than a Bed & Breakfast establishment as defined in the* Tourism Industry Act *Regulations (EC267/99), that holds a valid tourism establishment licence issued pursuant to the* Tourism Industry Act *Regulations.*

Projects to expand the shoulder tourist season and development of integrated recreational complexes which would feature entertainment facilities, lodging and dining facilities are encouraged. In some cases, loans may be granted for accommodation units which are converted to other uses during off-season periods.

This program is designed to meet the special needs of Island tourism operators for business acquisitions, expansions and debt consolidation, refurbishment of fixed assets and in some cases working capital for seasonal start-up.

Bed & Breakfast operations, as defined by the *Tourism Industry Act* Regulations, are ineligible to borrow from the agency.

## Manufacturing and Processing

Definition

*Manufacturing and Processing includes any person that:*

*(i) carries on business, or intends to carry on business, in the province; and*

*(iii) operates a business which produces a product by mechanical method from a raw material that is altered to add value.*

Loans are available to finance land and buildings, specialized equipment, and in some cases, production inventory.

## Fisheries and Aquaculture

Definition

*Fisheries and Aquaculture includes any person that:*

*(i) carries on business, or intends to carry on business, in the province; and*

*(ii) is licensed or qualified to obtain a license or aquaculture permit issued by the federal Department of Fisheries and Oceans, for any of the commercial fisheries or aquaculture industries in the province.*

The objective of the agency is to provide term financing, recapitalization and operating lines of credit to assist applicants in the commercial fishery and/or aquaculture industry. The agency takes a particular interest in supporting projects that have a potential commercial viability for under-exploited species of finfish, shellfish and sea plants.

## Information Technology

Definition

*Information Technology includes any person that:*

*(i) carries on business, or intends to carry on business, in the province; and*

*(ii) operates a business that derives at least 60 percent of revenue from software publishing; computer systems design and related services; the provision of on-line information services; or the manufacture of computer and peripheral equipment or related electronic components.*

The objective of the agency is to provide term financing and operating lines of credit to assist borrowers purchasing fixed assets and for production and marketing expenses.

# Year in Review

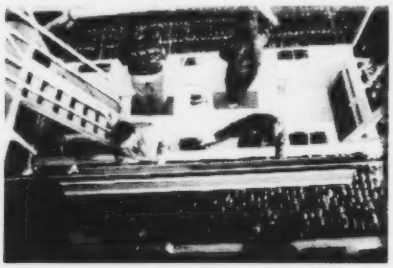
In recognition of its value to local industry and economic development, the current government re-established the agency as a separate crown corporation in December of 1998. Since that time, government has promoted an "open for business" welcoming approach to local industries, which is a deviation from the previous mandate of the agency under its strategic plan of 1995. As a result of this new approach, a number of requests for financing have been precipitated, from various areas of Island industry, that have not historically been financed by the agency. This has presented new and challenging considerations toward policy development for the agency's board of directors. In particular, expansion of the agency's services to financing municipalities and particular service industries have been considered. After careful evaluation of various factors, including the availability of alternative financing sources, the board did not feel the degree of need warranted what would certainly have amounted to a significant operational expansion resulting from inclusion of these two specific areas.

The private business and local industry expertise of the board of directors has resulted in many valuable contributions to the corporation over the past two years. Tenure on the board has provided directors with experience in government matters and with knowledge of commercial lending, in particular, increasing their ease and effectiveness in developing internal operational and loan policies. The imposition of exposure limits, within individual industries as well as on the portfolio as a whole, has been a point of discussion due to the heightened level of growth within the agency over the past few years. However, the very issue of exposure limits, often prescribed by commercial banks, has regularly lead to the need of agency services. Therefore, the agency will refrain from such restrictions, at the current time, but will continue to monitor future expansion. Should the risk exposure be deemed a concern, at any time, these are avenues management may need take to protect the investment of public dollars.

The growth experienced by the PEI Lending Agency during fiscal 2000-2001 was unprecedented. Over the past year, the dollar value of the portfolio grew by 38.4 percent, from a little over $98.1 million in assets at March 31, 2000, to over $135.9 million recorded at March 31, 2001; an increase of over $37.8 million. The largest growth was experienced in the information technology sector, which increased by 404 percent followed by manufacturing and processing, which includes aerospace, and reports year-over-year growth of 169.9 percent.

The number of applications received during the period April 1, 2000, to March 31, 2001, is also up over the previous year by 13 percent. Of the 196 applications received by agency staff, 160 were approved, accounting for just over $49 million.

There were approximately 165 loans actually booked from April 1, 2000, to March 31, 2001, representing a little over $56 million. Although $20 million can be attributed to one borrower in the aerospace industry, the remaining $36 million was provided to the remaining 164 borrowers from the various sectors within the Island's economy.



At March 31, 2001, the agency's arrears, which are the overdue payments owed, were $2.3 million or 1.7 percent of the total portfolio. This is a decrease of 0.2 percent over the same period last year when arrears represented 1.9 percent of the portfolio. When calculating the outstanding balances on those loans in arrears, as a percentage of the total portfolio, they were 3.3 percent at March 31, 2001, as compared to 4 percent at the same time last year. It should be noted that non-current loans are included in these arrears figures. And, due to the serious nature or level of risk to those loans, the entire loan balance is calculated as an arrears amount, not just the actual payments owing.

From an income or revenue perspective, the agency has once again exceeded its budgeted projections. Income from all sources during 2000-2001 was forecasted to be a little over $8.5 million while the actual results were $10,468,000. While this figure does include the agency's annual operational budget allocation from the province of $786,400, as indicated in the accompanying financial statement prepared by PricewaterhouseCoopers, the agency did not require use of these funds. Subsequently, an adjustment was made under provision for losses to offset this revenue. During 2000-2001, the agency wrote off loans totalling $723,781 which is comprised of eight borrowers.

Management's ongoing efforts to improve portfolio management, as well as the significant growth of the loan portfolio, have resulted in an increase in actual revenue of $1,935,400 over projections. This would encompass interest revenue and non-interest revenue, primarily in the form of service fees – both being affected by this unforeseen increase in growth. It is to be noted, however, that the increased revenue would be offset against the interest expense paid to the province for the use of funds. As the amount of loans disbursed by the agency increases, so will the agency's borrowings from the province to meet those needs, and subsequently the interest expense paid to the province.

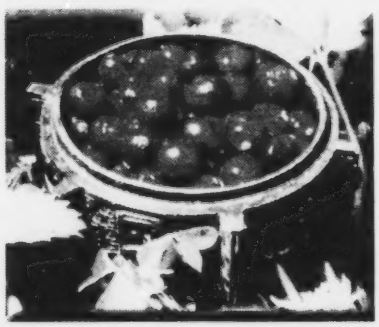
The agency's total budgeted operating expenses were forecasted to be $1,033,300 before loan loss provisions of $900,000 and interest expense of $6,599,400. The actual year-end results for operating expenses came to $1,031,916, which is slightly under budget. The largest single expense to the agency's operations continues to be the interest paid to the province on borrowed funds. Management continues to monitor this expense category closely to ensure that the agency maintains a sufficient interest spread between its funds borrowed and loaned.

As indicated in the accompanying financial statements, the other day-to-day operating expenses, except for professional fees, came in on target or slightly below the budgeted amount.

The increase of $17,000 in professional services was mainly attributable to services paid for software development. Agency management commissioned development of a program which is a conversion of the agency's current accounting and loan systems to Windows based software. The conversion process will occur over two years, with a total cost of approximately $40,000. Overall you will note from the financial statements that the agency has once again recorded excess revenues from operations. For fiscal year ending March 31, 2001, this amounted to $300,807.

## Agriculture

Since the mid-1990s, when agriculture accounted for approximately 50 percent of the total loan portfolio, the agency has continued to play a supportive role in the potato industry and a major role in financing development of new, alternative crops. The blueberry industry, for instance, represents 32 percent of the agency's agriculture portfolio, or $10,780,000 in loan investments. In the year 2000, producers harvested 5.4 million pounds of product with an estimated farm gate value of $3,510,000.



However, there was less interest shown in cranberry bog development during 2000-2001, with only two loans approved, for a total of $176,000, to develop five acres. Management attributes this decline to the usually high capital costs in developing proper bogs. It was in December of 2000 that the first of the blueberry development projects matured. These are projects that were funded under the Blueberry Loan Program, a joint initiative of the Department of Agriculture and Forestry and the agency. The program's objective of having 6,000 acres brought into blueberry production was also achieved.

Some inherent problems with the program structure were brought to light at this time. Capitalization of interest over the five-year term resulted in a higher debt load for some producers than their production level could accommodate. In addition, not all blueberry fields were able to achieve full production by the end of the five-year time period, as was initially predicted.

In resolve, representatives from the Department of Agriculture and Forestry, the PEI Lending Agency and PEI Business Development Inc. formed a joint review team. The mandate of this team included a review of the blueberry program with the objective of providing recommendations on loan terms, costs of production estimates and land

development time frames. Based on the recommendations of the review team, the province discontinued offering the Blueberry Land Development Program and agreed to provide interest relief to participants of the program.

Another outcome of the review team's assessment will see the Cranberry Development Program maintained and existing participants will be allowed to increase their acreage to 10 acres from the previous five-acre cap. A longer term strategy will also be implemented to develop new commodities or systems for the agriculture sector.

The loan assistance provided by the agency to the hog industry in 1998/99 and 1999/2000, when markets and prices for pork declined, is indicative of the valuable role the agency plays in sustaining industries during difficult times. Pork prices have since rebounded and loan balances have decreased significantly.

The PEI Lending Agency will continue to provide operating capital and long-term financing for equipment and land acquisitions, as well as to all facets of the agricultural community.

## Fisheries and Aquaculture

There were 25 traditional commercial lobster and other fisheries applications approved during 2000-2001 for a total of $3,700,000. The majority of these applications (15) were used to purchase fishing fleets, while the remainder were for new vessels and equipment. The future demand for term-loan financing in this sector is expected to increase as the number of current fishers reaching the age of retirement grows and their enterprises are put up for sale.

The aquaculture sector saw only two applications for assistance and appears to be experiencing slower growth. For the mussel industry, management attributes this reduction to the limited availability of suitable water sites and the increased interest by traditional lenders in providing financing now that this industry has matured.

The cultured oyster industry, on the other hand, has not been without its problems. The investment made by the province into this promising sector four to five years ago, under the Shellfish Aquaculture Program, experienced a predator problem in the latter part of fiscal 2000-2001. The agency, in consultation with the Department of Fisheries, Aquaculture and Environment, believes it premature to draw a conclusion, at this point, on the future of this industry. However, there can be no doubt that some of these oyster farming operations will experience losses, causing a ripple effect on the agency's loan portfolio next year.

## Tourism

The agency processed 11 applications for the tourism sector during fiscal 2000-2001 and the tourism portfolio experienced a growth of 9.3 percent, year-over-year. Approximately $2.8 million was disbursed in new loans to this sector during the year, with the majority of these funds being used for

new fixed roof accommodations throughout the province. The agency anticipates the ongoing demand will not be in new accommodations, but instead in the assistance to upgrade existing hotel-motel establishments and in supporting any initiatives of the tourism ministry.

In 2000-2001, regulations were amended, identifying Bed & Breakfast operators as ineligible to borrow from the agency. The Lending Agency has neither the staffing capabilities nor the mandate to compete with conventional lenders in providing what is, essentially, consumer mortgage financing. The definition of Bed & Breakfast as outlined in the *Tourism Industry Act* Regulations is that which is also used by the agency to distinguish Bed & Breakfast from country inns. Country inns remain eligible for financing from the agency.

## Small Business

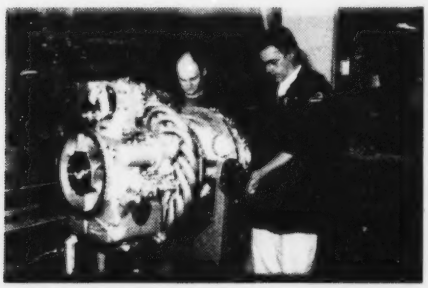
In addition to financial projects of a developmental nature, the agency's mandate also includes providing assistance to troubled Island businesses that may be sustained with financial help. In 2000-2001 the agency approved 28 applications for financing to the small business sector totalling $6,633,548. The small business portfolio increased, year-over-year, by $5,106,791 or by approximately 63.9 percent.

As operating capital is not provided by the agency under its small-business loan portfolio, these loans would be comprised primarily of commercial mortgages. Small business operators, situated outside the Charlottetown and Summerside areas, have traditionally been unable to secure suitable mortgage financing; and therefore, the agency is often required to fill this need.

## Manufacturing and Processing (Including Aerospace)

Loans in this sector have historically been provided to borrowers with projects that are developmental in nature. They are usually either new ventures or require specialized equipment or raw material purchases that would likely be considered valueless from a security standpoint, by a conventional lender, that is if sales do not materialize for the finished product. As noted above, the sector grew by 169.9 percent over the previous year-end; an increase from $37.4 million to $63.5 million. This sector portfolio actually had the largest dollar increase over the previous year.

During the past year, 28 applications were approved for this industry, for a total value of $25,097,500. These numbers include applications from biochemical firms and snack food and metal fabrication businesses, just to name a few; and approximately $5 million was provided for expansion within the aerospace industry. The value of approved applications to this sector far exceeds the dollar value of those approved in any other sector, representing over half the total dollars approved in 2000-2001.

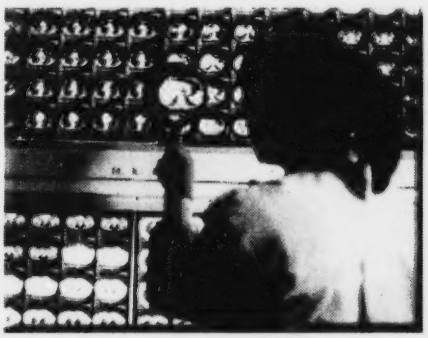


## Information Technology

In February of 2000, the agency made amendments to its regulations to establish a separate business sector for information technology. As information technology businesses were previously funded under either our manufacturing and processing or small business sector portfolios, this is the first year we've had easy access to statistical information on this industry. By identifying this individual "sector" of industry, the agency hopes to promote its commitment to assisting in the growth and development of this emerging business leader. The rapid pace of IT's evolution has also made it critical for the agency to obtain parameters for identification. Through assistance of the expertise within Technology PEI, we have developed the standards necessary for businesses to qualify for funding.

Much like manufacturing and processing, but undeniably to a far greater degree, funding information technology business is developmental and must be recognized as high-risk lending. There are few benchmarks to measure potential for success, particularly with the number of new products being developed daily by industry players. Intellectual property does not represent tangible assets and information technology businesses ordinarily have little else in "hard" assets to provide for loan security. For these reasons, commercial banks are often quite cautious or even reluctant to provide the financing for most of these enterprises to enable them to get off the ground or for continued support in their day-to-day operations.

At March 31, 2001, the agency's IT portfolio was at $3,312,229. Though the agency's smallest portfolio from a dollars perspective, information technology experienced the largest percentage of growth over the previous year at 404 percent, from $656,186.



The agency will continue to work closely with PEI Business Development Inc., the Atlantic Canada Opportunities Agency and Human Resources Development Canada on joint projects; ensuring applicants' needs are met and the province's economic goals can be realized.

# Bilan de l'année

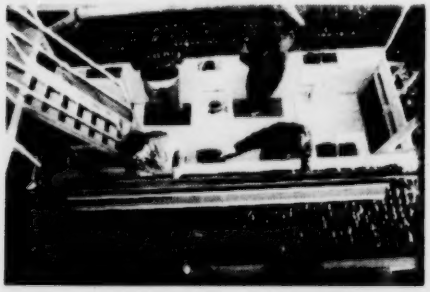
Pour reconnaître sa valeur pour le développement industriel et économique local, le gouvernement actuel a rétabli l'Agence comme une société d'État distincte en décembre 1998. Depuis ce temps, le gouvernement a favorisé l'aide aux industries locales, ce qui diffère de l'ancien mandat de l'Agence dans son plan stratégique de 1995. Compte tenu de cette nouvelle approche, divers secteurs industriels de l'Île qui n'étaient pas auparavant financés par l'Agence ont présenté des demandes de financement. Par conséquent, le conseil d'administration de l'Agence a dû se pencher sur des questions nouvelles et délicates qui ont trait à l'élaboration de politiques. En particulier, il a examiné l'expansion des services de l'Agence pour inclure le financement de municipalités et de certaines industries des services. Après avoir évalué attentivement divers facteurs, y compris la disponibilité d'autres sources de financement, le conseil a décidé que les besoins ne justifiaient pas l'expansion opérationnelle importante qui serait nécessaire pour inclure ces deux secteurs.

Grâce aux connaissances du secteur privé et des industries locales du conseil d'administration, il a apporté, ces deux dernières années, une contribution précieuse à la Corporation. Les membres du conseil d'administration se sont familiarisés avec les questions gouvernementales et avec les prêts commerciaux; plus particulièrement, ils ont appris à élaborer, plus facilement et plus efficacement, des politiques de prêts et des politiques opérationnelles internes. L'imposition de limites d'exposition au risque pour chaque industrie et pour l'ensemble du portefeuille a été un sujet de discussion, compte tenu de la forte croissance de l'Agence au cours des dernières années. Cependant, la question des limites d'exposition au risque, qui sont souvent imposées par les banques commerciales, a régulièrement nécessité les services de l'Agence. Par conséquent, l'Agence n'imposera pas de telles restrictions à l'heure actuelle, mais continuera de surveiller l'expansion future. Si l'exposition au risque devient une préoccupation, la direction prendra les mesures nécessaires pour protéger l'investissement des fonds publics.

Durant l'exercice 2000-2001, l'Agence de crédit de l'Î.-P.-É. a connu une croissance sans précédent. L'année dernière, la valeur du portefeuille a augmenté de 38,4 %, passant d'un peu plus de 98,1 millions de dollars en actif au 31 mars 2000 à plus de 135,9 millions de dollars au 31 mars 2001, ce qui représente une augmentation de plus de 37,8 millions de dollars. C'est le secteur de la technologie de l'information qui a connu la croissance la plus importante, soit une augmentation de 404 %; il est suivi du secteur de la fabrication et de la transformation, incluant l'industrie aérospatiale, qui a connu une augmentation annuelle de 169,9 %.

Le nombre de demandes reçues entre le 1er avril 2000 et le 31 mars 2001 a également augmenté de 13 % par rapport à l'année dernière.

Des 196 demandes reçues par le personnel de l'Agence, 160 ont été approuvées, ce qui représente un peu plus de 49 millions de dollars. Environ 165 prêts ont été enregistrés entre le 1er avril 2000 et le 31 mars 2001, ce qui représente un peu plus de 56 millions de dollars. Même si un montant de 20 millions de dollars a été attribué à un emprunteur de l'industrie aérospatiale, les 36 millions de dollars qui restent ont été accordés aux 164 autres emprunteurs des divers secteurs de l'économie de l'Île.



Au 31 mars 2001, les arriérés de l'Agence, qui représentent les paiements en retard exigibles, étaient de 2,3 millions de dollars ou 1,7 % du portefeuille total. Il s'agit d'une baisse de 0,2 % par rapport à la même période l'année dernière où ils représentaient 1,9 % du portefeuille. Quand on calcule les soldes impayés sur ces prêts en retard comme un pourcentage du portefeuille total, on constate qu'ils représentaient 3,3 % au 31 mars 2001, par comparaison à 4,0 % au même moment l'année dernière. Il faut préciser que les prêts en souffrance sont inclus dans ces arriérés. Et, en raison de la nature sérieuse ou du niveau de risque de ces prêts, l'ensemble du solde des prêts (pas seulement les paiements réellement exigibles) est calculé comme un arriéré.

Du point de vue du revenu ou des recettes, l'Agence a, une fois de plus, dépassé ses prévisions. En 2000-2001, les prévisions du revenu provenant de toutes les sources représentaient un peu plus de 8,5 millions de dollars, tandis que le revenu réel a été de 10 468 000 $. Même si ce montant inclut le budget opérationnel annuel de l'Agence provenant de la province, qui est de 786 400 $, comme il est indiqué dans les états financiers ci-joints préparés par l'entreprise *PricewaterhouseCoopers*, l'Agence n'a pas utilisé ces fonds. Par la suite, une modification a été apportée à la provision pour pertes sur prêts pour compenser ces recettes. En 2000-2001, l'Agence a radié des prêts totalisant un montant de 723,781 $ qui visaient huit emprunteurs.

Les efforts soutenus de la direction pour améliorer la gestion de portefeuille ainsi que la croissance importante du portefeuille des prêts ont fait augmenter les recettes réelles de 1 935 400 $ par rapport aux prévisions. Cela comprend les recettes productrices d'intérêt et les recettes non productrices d'intérêt, en particulier sous la forme de frais de service - deux secteurs qui sont touchés par cette accélération imprévue de la croissance. Cependant, il faut préciser que les recettes accrues seront portées en déduction des frais d'intérêt payés à la province pour l'utilisation des fonds. L'augmentation du montant des prêts réalisés par l'Agence entraînera l'augmentation des emprunts de l'Agence faits à la province pour répondre à ces besoins et, ultérieurement, des frais d'intérêt payés à la province.

Les prévisions de dépenses de fonctionnement totales de l'Agence étaient de 1 033 300 $ avant la provision pour pertes sur prêts de 900 000 $ et les frais d'intérêt de 6 599 400 $. Les résultats réels à la fin de l'exercice pour les dépenses de fonctionnement ont été

de 1 031 916 $, ce qui est légèrement inférieur au budget. La dépense la plus importante de l'Agence continue d'être les intérêts sur les fonds empruntés qui sont payés à la province.

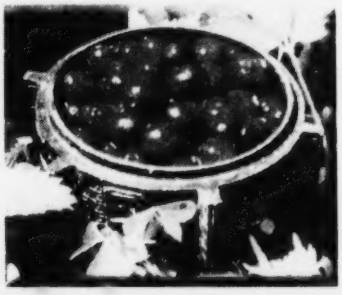
La direction continue de surveiller étroitement cette catégorie de dépenses pour s'assurer que l'Agence maintient une marge d'intérêt suffisante entre ses fonds empruntés et ses fonds prêtés.

Comme il est indiqué dans les états financiers ci-joints, les autres dépenses de fonctionnement quotidiennes, à l'exception des honoraires professionnels, ont été égales ou légèrement inférieures au montant budgété. L'augmentation de 17 000 $ dans les services professionnels a été largement attribuable aux services payés pour le développement d'un logiciel. La direction de l'Agence a demandé l'élaboration d'un programme pour convertir le système comptable et le système de prêts actuels de l'Agence en un logiciel à base de fenêtres. Le processus de conversion durera deux ans et coûtera environ 40 000 $.

Dans l'ensemble, vous remarquerez dans les états financiers que l'Agence a, une fois de plus, enregistré des recettes excédentaires des opérations. Pour l'exercice se terminant le 31 mars 2001, ce montant s'élève à 300 807 $.

## Agriculture

Depuis le milieu des années 1990, période où l'agriculture représentait environ 50 % du portefeuille total des prêts, l'Agence a continué d'aider l'industrie de la pomme de terre et de jouer un rôle important dans le financement pour le développement de nouvelles cultures ou de cultures de rechange.



Par exemple, l'industrie du bleuet représente 32 % du portefeuille de l'agriculture de l'Agence, ou 10 780 000 $ en investissements sous forme de prêts. En 2000, les producteurs ont récolté 5,4 millions de livres de produits, ce qui représente une valeur à la ferme estimative de 3 510 000 $.

Cependant, le développement d'atocatières a soulevé moins d'intérêt en 2000-2001; seulement deux prêts ont été approuvés pour le développement de 5 acres, ce qui représente un total de 176 000 $. La direction attribue cette baisse aux coûts d'immobilisations normalement élevés pour développer des atocatières convenables.

En décembre 2000, le premier des projets de développement de l'industrie du bleuet est arrivé à maturité. Ces projets ont été financés dans le cadre du *Blueberry Loan Program*, une initiative conjointe du ministère de l'Agriculture et des Forêts et de l'Agence. L'objectif du programme, qui était de développer 6 000 acres de production de bleuets, a également été réalisé.

Certains problèmes inhérents à la structure du programme ont été soulevés à ce moment-là. La capitalisation des intérêts sur la période de cinq ans a créé, pour certains producteurs, une dette plus élevée que ne leur permettait leur niveau de production.

De plus, les champs de bleuets ne pouvaient pas tous atteindre une pleine production d'ici la fin de la période de cinq ans, comme on l'avait prévu initialement.

Par conséquent, des représentants du ministère de l'Agriculture et des Forêts, de l'Agence de crédit et de *Business Development Inc.* ont formé une équipe d'examen conjointe. Son mandat était d'examiner le programme de développement de l'industrie du bleuet dans le but de formuler des recommandations sur les conditions des prêts, les coûts de production prévus et les délais d'aménagement des terres.

Compte tenu des recommandations de l'équipe d'examen, la province a mis fin au *Blueberry Land Development Program* et a accepté d'accorder une exonération d'intérêts pour les participants au programme.

Et, compte tenu de l'évaluation de l'équipe d'examen, le *Cranberry Development Program* est maintenu et les participants actuels pourront augmenter leur surface à 10 acres; auparavant, un maximum de 5 acres était permis. De plus, une stratégie à long terme sera élaborée pour développer de nouveaux produits ou systèmes pour le secteur de l'agriculture.

L'aide sous forme de prêts accordée par l'Agence à l'industrie du porc en 1998-1999 et en 1999-2000, période où les marchés et les prix du porc ont baissé, montre le rôle important que joue l'Agence pour aider les industries qui vivent des moments difficiles. Depuis ce temps-là, les prix du porc ont rebondi et les soldes des prêts ont baissé considérablement.

L'Agence de crédit de l'Î.-P.-É. continuera d'accorder des prêts pour les fonds de fonctionnement et des prêts à long terme pour l'équipement et l'acquisition des terres, de même que pour tous les aspects du secteur de l'agriculture.

## Pêches et aquaculture

En 2000-2001, 25 demandes de pêche commerciale au homard traditionnelle et d'autres catégories de pêche ont été approuvées, pour un total de 3 700 000 $. La plupart de ces demandes (15) visaient l'achat de flottes de pêche, tandis que les autres étaient pour l'achat de nouveaux bateaux et de nouvel équipement. La demande future de financement par des prêts à long terme dans ce secteur devrait augmenter puisque de plus en plus de pêcheurs atteignent l'âge de la retraite et que leurs entreprises sont mises en vente.

Seulement deux demandes d'aide ont été reçues dans le secteur de l'aquaculture qui semble connaître une croissance plus lente. Dans la mytiliculture, la direction attribue cette baisse à la disponibilité limitée de sites d'eau disponibles et à l'intérêt accru des prêteurs traditionnels qui veulent offrir un financement puisque cette industrie est arrivée à maturité. Et, l'ostréiculture a connu des problèmes.

L'investissement fait par la province il y a 4-5 ans dans ce secteur prometteur dans le cadre du *Shellfish Aquaculture Program* a connu un problème de prédateur dans la dernière partie de l'exercice 2000-2001. L'Agence, en consultation avec le ministère des Pêches, croit qu'il est prématuré de tirer une conclusion à ce moment-ci sur l'avenir de cette industrie. Cependant, il est évident que certaines activités de l'ostréiculture subiront des pertes, ce qui aura des retombées sur le portefeuille des prêts de l'Agence l'année prochaine.

## Tourisme

En 2000-2001, l'Agence a traité 11 demandes du secteur touristique et le portefeuille du tourisme a connu une augmentation annuelle de 9,3 %. Environ 2,8 millions de dollars ont été dépensés dans de nouveaux prêts pour ce secteur durant l'année; la plupart de ces fonds ont été utilisés pour des types d'hébergement en dur (c'est-à-dire excluant le camping) dans toute la province. L'Agence prévoit que les demandes ne viseront pas à obtenir une aide pour de nouvelles installations, mais plutôt une aide pour l'amélioration des hôtels et motels existants et l'appui d'initiatives du ministère du Tourisme.

En 2000-2001, les règlements ont été modifiés. Ainsi, les exploitants de gîtes du passant ne peuvent pas faire une demande de prêt auprès de l'Agence. L'Agence de crédit n'a pas le personnel nécessaire ou le mandat pour faire la concurrence aux prêteurs conventionnels qui financent, essentiellement, les hypothèques de consommateurs. La définition du gîte du passant (*Bed & Breakfast*) dans les *Tourism Industry Act Regulations* est celle qui est également utilisée par l'Agence pour faire la distinction entre un gîte du passant et une auberge de campagne (*Country Inn*). Les auberges de campagne demeurent admissibles au financement par l'Agence.

## Petites entreprises

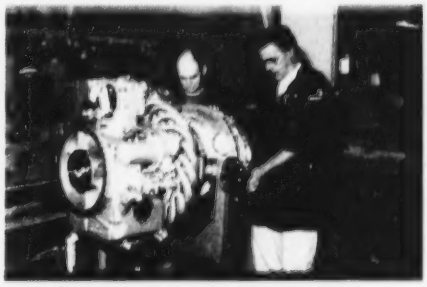
En plus de favoriser les projets financiers évolutifs, l'Agence aide les entreprises de l'Île en difficultés. En 2000-2001, l'Agence a approuvé 28 demandes de financement dans le secteur des petites entreprises, pour un total de 6 633 548 $. Le portefeuille des petites entreprises a connu une augmentation annuelle de 5 106 791 $ ou d'environ 63,9 %.

Comme l'Agence n'accorde pas de fonds de fonctionnement dans le cadre de son portefeuille des prêts aux petites entreprises, ces prêts sont principalement des hypothèques commerciales. Les exploitants de petites entreprises qui se trouvent à l'extérieur des régions de Charlottetown et de Summerside ne peuvent pas obtenir un financement convenable de leurs hypothèques; par conséquent, l'Agence doit souvent répondre à ce besoin.

## Fabrication et transformation (y compris l'industrie aérospatiale)

Les prêts dans ce secteur sonttraditionnellement accordés aux emprunteurs qui ont des projets évolutifs. Normalement, il s'agit de nouvelles initiatives ou d'activités qui nécessitent l'achat d'équipement spécialisé ou de matières premières qui seraient sans doute considérés comme étant d'aucune valeur du point de vie de la garantie par un prêteur conventionnel - c'est-à-dire si le produit fini n'est pas vendu. Comme il est indiqué ci-dessus, le secteur a connu une augmentation de 169,9 % par rapport à la fin de l'exercice précédent, passant de 37,4 millions de dollars à 63,5 millions de dollars.
Le portefeuille de ce secteur a, en fait, connu l'augmentation la plus importante par rapport à l'année précédente.

L'année dernière, 28 demandes ont été approuvées pour cette industrie, ce qui représente une valeur totale de 25 097 500 $. Ces demandes provenaient, entre autres, d'entreprises de produits biochimiques, de casse-croûte et de transformation des métaux, et environ 5 millions de dollars ont été accordés pour étendre l'industrie aérospatiale.



La valeur des demandes approuvées dans ce secteur dépasse de beaucoup la valeur des demandes approuvées dans les autres secteurs puisqu'elle représente plus de la moitié de la valeur totale approuvée en 2000-2001.

## Technologie de l'information

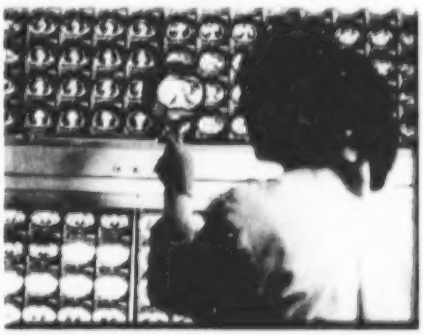
En février 2000, l'Agence a modifié ses règlements pour établir un secteur commercial distinct pour la technologie de l'information. Comme les entreprises de technologie de l'information étaient auparavant financées dans le cadre de notre portefeuille du secteur de la fabrication et de la transformation ou dans le cadre de notre portefeuille du secteur des petites entreprises, c'est la première année où nous avons eu facilement accès à l'information statistique sur cette industrie.

En identifiant ce « secteur » individuel de l'industrie, l'Agence espère faire connaître son engagement à aider à la croissance et au développement de ce nouveau chef de file commercial. Compte tenu de l'évolution rapide de la technologie de l'information, l'Agence doit absolument obtenir les paramètres d'identification. Avec l'aide de Technologie Î.-P.-É., nous avons établi les normes nécessaires aux entreprises pour être admissibles au financement.

Comme le secteur de la fabrication et de la transformation, mais incontestablement dans une plus grande mesure, le secteur de la technologie de l'information est en évolution et son financement comporte des risques élevés. Il existe quelques points de référence qui permettent de mesurer les chances de réussite, en particulier avec le nombre de nouveaux produits qui sont développés chaque jour par les intervenants dans l'industrie. La propriété intellectuelle ne représente pas des biens tangibles et les entreprises de technologie de l'information ont normalement peu de biens durables qui garantissent l'emprunt. Pour ces raisons, les banques commerciales hésitent souvent à accorder un financement à la plupart de ces entreprises pour leur permettre de démarrer leurs activités ou de les aider dans leurs activités quotidiennes.

Au 31 mars 2001, le portefeuille pour le secteur de la technologie de l'information de l'Agence était de 3 312 229 $. Même s'il s'agit du portefeuille de l'Agence qui a la plus petite valeur, il a connu le pourcentage de croissance le plus importante par rapport à l'année précédente, soit 404 %, où sa valeur était de 656 186 $.

L'Agence continuera de travailler étroitement avec *PEI Business Development Inc.*, l'Agence de promotion économique du Canada atlantique et Développement des ressources humaines Canada dans le cadre de projets conjoints en s'assurant que les besoins des demandeurs sont satisfaits et que les objectifs économiques de la province peuvent être réalisés.



# Appendix A

## Corporate Directory as of March 31, 2001

### Executive

William R. Noonan
Chairman

John W. McAleer
Vice-Chairman

Peter A. Wilson*
Secretary-Treasurer and Chief Executive Officer

### Members of the Board

George Beck
Montague, PEI

John J. Howatt
North Wiltshire, PEI

Mary MacLean
Stratford, PEI

Rodney McInnis
Tignish, PEI

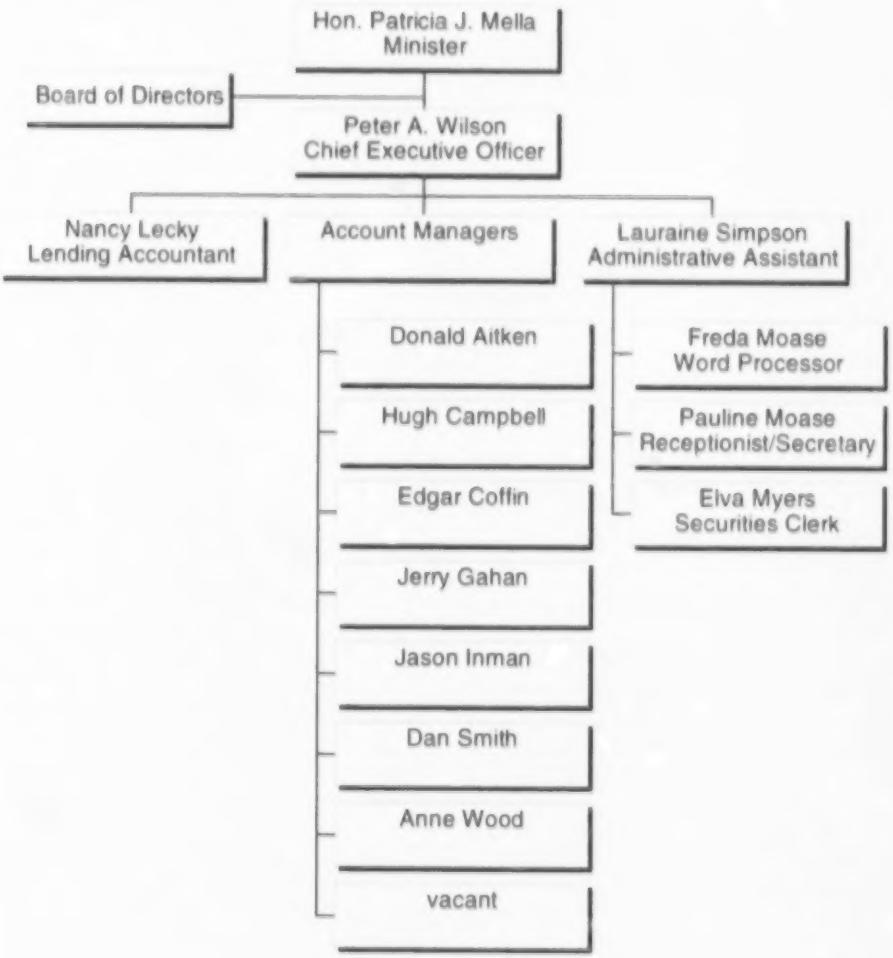
Michael L. O'Brien, FCA
Deputy Provincial Treasurer

James F. Johnston, C.A.
Deputy Minister
Department of Development

* Non-voting

# Appendix B

## PEI Lending Agency
## Organizational Chart



# Appendix C

## Auditor's Report

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
Prince Edward Place
18 Queen Street, Suite 100
PO Box 455
Charlottetown Prince Edward Island
Canada C1A 7L1
Telephone +1 (902) 368 3100
Facsimile +1 (902) 566 5074

May 4, 2001

## Auditors' Report

**To the Board of Directors**

We have audited the balance sheet of **P.E.I. Lending Agency** as at March 31, 2001 and the statements of earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

PricewaterhouseCoopers LLP

**Chartered Accountants**

PricewaterhouseCoopers LLP is a Canadian member firm of PricewaterhouseCoopers International Limited, an English company limited by guarantee.

# Appendix D

## Financial Statements

# P.E.I. Lending Agency

Balance Sheet

**As at March 31, 2001**

| | 2001<br>$ | 2000<br>$ |
|---|---|---|
| **Assets** | | |
| **Cash** | 258,886 | 332,732 |
| **Accounts receivable** (note 10) | 13,284 | 6,306 |
| **Due from Province of Prince Edward Island** (note 3) | 6,402,326 | 5,401,540 |
| **Loans receivable** (note 4) | 126,404,676 | 87,121,859 |
| **Leased property** (note 5) | 2,677,866 | 5,163,990 |
| **Property holdings** (note 6) | - | 175,133 |
| | 135,757,038 | 98,201,560 |
| **Liabilities** | | |
| **Accounts payable and accrued liabilities** (note 10) | 283,011 | 308,715 |
| **Due to Province of Prince Edward Island** (note 3) | 1,724,567 | 1,629,470 |
| **Notes payable** (note 7) | 133,023,795 | 95,838,517 |
| | 135,031,373 | 97,776,702 |
| **Contingent liabilities** (note 8) | | |
| **Surplus** | | |
| **Retained earnings – Beginning of year** | 424,858 | 63,865 |
| Excess revenue for the year | 300,807 | 360,993 |
| **Retained earnings – End of year** | 725,665 | 424,858 |
| | 135,757,038 | 98,201,560 |

**Approved by the Corporation**

Director Director

PRICEWATERHOUSECOOPERS

# P.E.I. Lending Agency

Statement of Earnings

**For the year ended March 31, 2001**

| | 2001 | | 2000 |
|---|---|---|---|
| | **Budgeted (Unaudited) $** | **Actual $** | **Actual $** |
| **Revenue** | | | |
| Grants from Province | 786,400 | 786,400 | 731,900 |
| Interest from borrowers (note 10) | 7,153,300 | 9,102,645 | 7,329,649 |
| Interest from deposits | 30,000 | 49,260 | 39,505 |
| Agricultural leases | 503,000 | 318,817 | 448,447 |
| Service fees | 60,000 | 174,212 | 108,083 |
| Post-receivership income | - | 36,766 | - |
| | 8,532,700 | 10,468,100 | 8,657,584 |
| **Expenses** | | | |
| Office supplies and printing | 24,600 | 24,162 | 21,136 |
| Telecommunications | 15,500 | 11,145 | 10,599 |
| Rent and occupancy | 107,800 | 104,160 | 107,783 |
| Meetings and hosted conferences | 4,000 | 3,796 | 2,895 |
| Computer equipment | 10,000 | 9,996 | 2,513 |
| Advertising and promotion | 3,000 | 6,215 | 3,000 |
| Office equipment rentals | 9,500 | 5,546 | 10,506 |
| Library and subscriptions | 1,200 | 2,368 | 1,586 |
| Repairs and maintenance | 6,000 | 2,360 | 3,300 |
| Miscellaneous | 1,500 | 3,239 | 4,658 |
| Professional services | 32,100 | 49,939 | 18,624 |
| Salaries and benefits | 786,800 | 782,081 | 729,864 |
| Travel | 31,300 | 26,909 | 23,144 |
| Interest (note 10) | 6,599,400 | 7,410,809 | 6,456,983 |
| Provision for possible losses | 900,000 | 1,724,568 | 900,000 |
| | 8,532,700 | 10,167,293 | 8,296,591 |
| **Excess revenue for the year** | - | 300,807 | 360,993 |

# P.E.I. Lending Agency

Statement of Cash Flows

**For the year ended March 31, 2001**

| | 2001<br>$ | 2000<br>$ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Excess revenue for the year | 300,807 | 360,993 |
| Item not affecting working capital | | |
| Increase in due from Province of Prince Edward Island – allowance for possible losses | (1,000,786) | (633,660) |
| | (699,979) | (272,667) |
| Net change in non-cash working capital items | | |
| – increase in accounts receivable | (6,978) | (6,306) |
| – increase (decrease) in accounts payable and accrued liabilities | (25,704) | 100,016 |
| – increase in due to Province of Prince Edward Island – current operations | 95,097 | 900,000 |
| | (637,564) | 721,043 |
| **Financing activities** | | |
| Decrease in leased property (net) | 2,486,124 | 703,663 |
| Increase in loans receivable (net) | (39,282,817) | (7,239,083) |
| Increase in notes payable | 57,359,000 | 29,400,604 |
| Retirement of notes payable | (20,173,722) | (23,567,752) |
| Decrease in due to Prince Edward Island Business Development Inc. | - | (155,567) |
| | 388,585 | (858,135) |
| **Investing activities** | | |
| Additions to and purchases of property holdings | (76,867) | (4,883) |
| Reductions of and proceeds on disposal of property holdings | 219,133 | 21,622 |
| | 142,266 | 16,739 |
| **Decrease in cash** | (73,846) | (120,353) |
| **Cash – Beginning of year** | 332,732 | 453,085 |
| **Cash – End of year** | 258,886 | 332,732 |

## 1 Status of the corporation

P.E.I. Lending Agency is a Crown corporation established by a proclamation of the Lending Agency Act dated December 31, 1998. The Agency's financial results are included in the public accounts of the Province of Prince Edward Island.

## 2 Summary of significant accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles.

### a) Due from (to) the Province of Prince Edward Island

i. Current operations

The budgeted provision for possible losses expense is established as part of the normal budget process and is updated to reflect known changes as they become evident during the year. The actual provision for possible losses recorded in the company's accounts is expensed with a corresponding increase recorded in the allowance for possible losses in the balance sheet.

An amount equal to the annual provision for possible losses (expense or recovery) is recorded as an increase in "Due to Province of Prince Edward Island – Current Operations" and a corresponding increase in "Due from Province of Prince Edward Island – Allowance for Possible Losses". The Due to Province of Prince Edward Island is normally repaid to the province on an annual basis.

ii. Allowable for possible losses

An amount equal to the annual provision for possible losses (expense or recovery) is recorded as an amount "Due from the Province of Prince Edward Island – Allowable for Possible Losses" and a corresponding increase in the amount "Due to Province of Prince Edward Island – Current Operations". The "Due from Province of Prince Edward Island – Allowance for Possible Losses" is reduced when a write-off of a foreclosed project is recognized by both P.E.I. Lending Agency and the Province, with notes payable reduced correspondingly.

### b) Loans receivable

Working capital loans are issued to qualified lenders and are recorded at cost less an allowance for possible losses. These loans bear interest at the Toronto Dominion Bank prime rate plus 1 ¾% to 2 ¾% and are repayable at the end of each sector's operating season or specific project.

Mortgage loans consist of loans issued to Prince Edward Island enterprises for purposes of acquiring capital assets. These loans are recorded at cost less an allowance for possible losses. These loans are issued at long-term interest rates and are repayable over various terms to a maximum of 20 years with interest rates ranging from 7.5% to 12.25%.



PRICEWATERHOUSECOOPERS

Interest income is recorded on the accrual basis until such time as the loan is classified as impaired. An impaired loan is a loan in arrears in excess of 120 days or where in management's opinion there is no longer reasonable assurance as to the timely collection of the full amount of the principal and interest.

**c) Allowance for possible losses**

An allowance is maintained which is considered adequate to absorb all credit losses and off-balance sheet items including guarantees. The allowance is deducted from the applicable asset on the balance sheet, except for guarantees. The allowance for guarantees of $50,000 (2000 - $50,000) is included in accounts payable.

The allowance consists of specific and general provisions.

Specific provisions include the accumulated allowances for losses on particular assets required to reduce the book values to estimated realizable amounts. Specific provisions total $5,840,820 (2000 – $4,849,471).

The company reviews its loan portfolios and leased properties on an ongoing basis to assess whether a loan should be classified as impaired, or an allowance or write-off recorded.

A variety of methods are used to determine the amount expected to be recovered from impaired loans and property holdings, including estimated future cash flows and the estimated fair value of the underlying security and value of any collateral security taken.

A general provision of $1,007,773 (2000 – $1,152,069) includes accumulated allowances for losses which are prudential in nature and cannot be specifically identified. The general provision is based on past performance of similar loans, the level of the specific provision, management's judgement, the economic climate and the maturity and financial strength of the investee.

**d) Leased property**

Leased property represents the cost to acquire agricultural property based on appraised market value at the inception of the lease less an allowance for possible losses. Operating leases are negotiated with the lessee for a maximum of 5 years at a rate of interest tied to commercial lending rates. The lease rates currently range from 7.5% to 11.75%. The lease may be renewed for one five-year term after which time the lessee must repurchase the property.

Lease income is recorded on an accrual basis except for impaired leases. When a lease is in arrears in excess of 120 days, it is classified as impaired and lease income is no longer accrued.

**e) Property holdings and amortization**

Office furniture and equipment and computer equipment are fully expensed in the year of acquisition. The amount expensed during the year ended March 31, 2001 was $11,607 (2000 – $10,279).

Foreclosed projects are carried at the lower of cost of the impaired asset prior to realization of the related security and the underlying estimated realizable value of the security.

The reduction from cost to estimated realizable value is recorded as an allowance for possible losses.

**f) Estimated realizable value of financial instruments**

Estimated realizable value (fair value) is subjective in nature requiring a variety of valuation techniques and assumptions. The company's financial instruments are not exchangeable and it is difficult, and often not practical, to determine their estimated realizable value. Where it is possible to estimate realizable value, the company assumes that it will not sell the assets or the liabilities, taking into account only changes in credit risk as credit risk is the main cause of change in the estimated realizable value of the company's financial instruments. Credit risk is defined as the risk that the note holder will fail to discharge an obligation in whole or in part resulting in a financial losses to this company.

**g) Management estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those reported.

## 3 Due from (to) the Province of Prince Edward Island

| | 2001<br>$ | 2000<br>$ |
|---|---|---|
| **Current operations** | | |
| Balance – Beginning of year | (1,629,470) | (729,470) |
| Current year's actual provision for possible losses | (1,724,567) | (900,000) |
| Repaid to the province | 1,629,470 | - |
| Balance – End of year | (1,724,567) | (1,629,470) |
| **Allowance for possible losses** | | |
| Balance – Beginning of year | 5,401,540 | 4,767,880 |
| Current year's expense | 1,724,567 | 900,000 |
| | 7,126,107 | 5,667,880 |
| Less: write-offs during the year | 723,781 | 266,340 |
| Balance – End of year | 6,402,326 | 5,401,540 |

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## 4 Loans receivable

| | | | | | 2001 | 2000 |
|---|---|---|---|---|---|---|
| | Total $ | Impaired loans included in total $ | Allowance for possible losses General $ | Specific $ | Net $ | Net $ |
| **Working capital loans** | 27,625,643 | 15,693,707 | 17,279 | 4,123,407 | 23,484,957 | 20,982,070 |
| **Mortgage loans receivable** | | | | | | |
| Agriculture | 7,617,748 | 980,421 | 59,790 | 168,242 | 7,389,716 | 6,436,645 |
| New farmer | 58,415 | - | - | - | 58,415 | 69,431 |
| Tourism | 14,431,941 | 584,636 | 100,000 | 171,300 | 14,160,641 | 10,148,807 |
| Manufacturing and processing | 25,536,020 | 123,238 | 70,000 | 123,238 | 25,342,782 | 7,348,944 |
| Fisheries | 7,026,263 | 744,666 | - | 80,000 | 6,999,305 | 5,144,099 |
| Aquaculture | 3,129,135 | - | - | - | 3,129,135 | 2,480,546 |
| Small business | 11,761,304 | - | 55,000 | - | 11,706,304 | 6,300,249 |
| Blueberry | 9,169,884 | 2,891,151 | 655,704 | 500,000 | 8,014,180 | 5,364,669 |
| Cranberry | 583,776 | - | - | - | 583,776 | 508,225 |
| Strategic economic development | 310,623 | 310,623 | - | 150,000 | 160,623 | 21,362,742 |
| 2000 Hog Program | 281,390 | - | - | - | 281,390 | 650,371 |
| Aerospace | 22,125,276 | - | - | - | 22,125,276 | - |
| Information Technology | 2,835,416 | - | - | - | 2,835,416 | - |
| Other | 505,802 | 444,672 | - | 320,000 | 185,802 | 325,061 |
| | 105,372,993 | 6,079,407 | 940,494 | 1,512,780 | 102,919,719 | 66,139,789 |
| | 132,998,636 | 21,773,114 | 957,773 | 5,636,187 | 126,404,676 | 87,121,859 |

## 5 Leased property

| | | | | | 2001 | 2000 |
|---|---|---|---|---|---|---|
| | Total $ | Impaired loans included in total $ | General provision $ | Specific provision $ | Net $ | Net $ |
| Agricultural leases | 2,959,366 | 634,040 | - | 281,500 | 2,677,866 | 5,163,990 |

## 4 Loans receivable

| | Total $ | Impaired loans included in total $ | Allowance for possible losses: General $ | Allowance for possible losses: Specific $ | 2001 Net $ | 2000 Net $ |
|---|---|---|---|---|---|---|
| **Working capital loans** | 27,625,643 | 15,693,707 | 17,279 | 4,123,407 | 23,484,957 | 20,982,070 |
| **Mortgage loans receivable** | | | | | | |
| Agriculture | 7,617,748 | 980,421 | 59,790 | 168,242 | 7,389,716 | 6,436,645 |
| New farmer | 58,415 | - | - | - | 58,415 | 69,431 |
| Tourism | 14,431,941 | 584,636 | 100,000 | 171,300 | 14,160,641 | 10,148,807 |
| Manufacturing and processing | 25,536,020 | 123,238 | 70,000 | 123,238 | 25,342,782 | 7,348,944 |
| Fisheries | 7,026,263 | 744,666 | - | 80,000 | 6,999,305 | 5,144,099 |
| Aquaculture | 3,129,135 | - | - | - | 3,129,135 | 2,480,546 |
| Small business | 11,761,304 | - | 55,000 | - | 11,706,304 | 6,300,249 |
| Blueberry | 9,169,884 | 2,891,151 | 655,704 | 500,000 | 8,014,180 | 5,364,669 |
| Cranberry | 583,776 | - | - | - | 583,776 | 508,225 |
| Strategic economic development | 310,623 | 310,623 | - | 150,000 | 160,623 | 21,362,742 |
| 2000 Hog Program | 281,390 | - | - | - | 281,390 | 650,371 |
| Aerospace | 22,125,276 | - | - | - | 22,125,276 | - |
| Information Technology | 2,835,416 | - | - | - | 2,835,416 | - |
| Other | 505,802 | 444,672 | - | 320,000 | 185,802 | 325,061 |
| | 105,372,993 | 6,079,407 | 940,494 | 1,512,780 | 102,919,719 | 66,139,789 |
| | 132,998,636 | 21,773,114 | 957,773 | 5,636,187 | 126,404,676 | 87,121,859 |

## 5 Leased property

| | Total $ | Impaired loans included in total $ | General provision $ | Specific provision $ | 2001 Net $ | 2000 Net $ |
|---|---|---|---|---|---|---|
| Agricultural leases | 2,959,366 | 634,040 | - | 281,500 | 2,677,866 | 5,163,990 |



PRICEWATERHOUSECOOPERS

## 6 Property holdings

| | 2001<br>$ | 2000<br>$ |
|---|---|---|
| Foreclosed projects – land, buildings and equipment held for resale | 76,867 | 219,133 |
| Less: Allowance for possible losses | 76,867 | 44,000 |
| | - | 175,133 |

## 7 Notes payable

| | 2001<br>$ | 2000<br>$ |
|---|---|---|
| Short-term promissory notes | 12,125,000 | 12,527,248 |
| Long-term | 120,898,795 | 83,311,270 |
| | 133,023,795 | 95,838,518 |

Short-term promissory notes are issued to the Province of Prince Edward Island with interest set monthly based on the Province's short-term lending rate in existence at the first day of the month. These notes are renewed on an ongoing basis with interest payable monthly.

The notes payable – long-term are issued to the Province of Prince Edward Island and have various repayment terms and interest rates ranging from 5.52% to 13.65%.

The aggregate amount of principal payments required in each of the next five years to meet retirement provisions is as indicated below. Certain notes becoming due during the next five years have been assumed to be refinanced under similar terms:

| | $ |
|---|---|
| Year ending March 31, 2002 | 9,312,069 |
| 2003 | 8,942,901 |
| 2004 | 8,367,909 |
| 2005 | 10,057,522 |
| 2006 | 6,277,961 |

## 8 Contingent liabilities

As of March 31, 2001, P.E.I. Lending Agency was contingently liable under loan guarantees in the amount of $245,721 (2000 - $324,590) for which P.E.I. Lending Agency has included $50,000 in its allowance for possible losses. This portion of the allowance for possible losses is included in accounts payable.

## 9 Commitments

The P.E.I. Lending Agency loans approved but not disbursed at March 31, 2001 amount to $12,978,000 (2000 - $42,975,000).

## 10 Related party transactions

**Balance Sheet**

Included in accounts receivable is $13,284 (2000 - $6,306) due from the Province of Prince Edward Island.

Included in accounts payable and accrued liabilities is $1,269 (2000 - $60,653) in net loan payments and $167,333 (2000 - $59,853) in accrued interest payable to the Province of Prince Edward Island.

**Statement of earnings**

Included in expenses is $7,410,809 (2000 - $6,456,983) in interest paid/payable to the Province of Prince Edward Island.

Included in interest income from borrowers is $130 (2000 - $6,851) from Gateway Village Development Inc., a wholly owned subsidiary of a Crown corporation of the Province of Prince Edward Island.

The above transactions were recorded in the normal course of operations and measured on the same terms as transactions with unrelated parties.

## 11 Operating Lease

The minimum annual lease payments required in each of the next five years under an operating lease expiring March 31, 2005 are as follows:

| | $ |
|---|---|
| Year ending March 31, 2001 | 40,588 |
| 2002 | 40,588 |
| 2003 | 40,588 |
| 2004 | 40,588 |
| 2005 | 40,588 |

## 12 Interest rate risk

The following table sets out the assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the Agency's interest rate risk position is limited by the fact that borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing date. Examples of this include mortgages, which are shown at contractual maturity but which could prepay earlier.

| | Within 1 year $ | After 1 year but within 5 years $ | After 5 years $ | Not interest rate sensitive $ | Provision for possible losses $ | Total $ |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | 258,886 | - | - | - | - | 258,886 |
| Accounts receivable | - | - | - | 13,284 | - | 13,284 |
| Due from Province of Prince Edward Island | - | - | - | 6,402,326 | - | 6,402,326 |
| Loans receivable | 25,908,321 | 81,088,745 | 26,001,570 | - | (6,593,960) | 126,404,676 |
| Leased property | 1,233,646 | 1,725,720 | - | - | (281,500) | 2,677,866 |
| Property holdings | - | - | - | 76,867 | (76,867) | - |
| **Total assets** | 27,400,853 | 82,814,465 | 26,001,570 | 6,492,477 | (6,952,327) | 135,757,038 |
| **Liabilities and surplus** | | | | | | |
| Accounts payable and accrued liabilities | - | - | - | 233,011 | 50,000 | 283,011 |
| Due to Province of Prince Edward Island | - | - | - | 1,724,567 | - | 1,724,567 |
| Notes payable | 13,062,460 | 89,769,959 | 30,191,376 | - | - | 133,023,795 |
| Surplus | - | - | - | 725,665 | - | 725,665 |
| **Total liabilities and surplus** | 13,062,460 | 89,769,959 | 30,191,376 | 2,683,243 | 50,000 | 135,757,038 |
| Interest rate sensitivity gap | 14,338,393 | (6,955,494) | (4,189,806) | 3,809,234 | (7,002,327) | - |
| Cumulative interest rate sensitivity gap | 14,338,393 | 7,382,899 | 3,193,093 | 7,002,327 | - | - |



PRICEWATERHOUSECOOPERS

# Appendix E

## Clarification to Note 4 of Financial Statement

**Column 1 – Total**
Represents the total loan/leases divided by economic sector. These balances represent the balance owing at March 31, 2001, before any provision for loss. The "other" category is comprised of loans classified as non-current, wherein interest is no longer being accrued.

**Column 2 – Impaired**
Represents loans which, in management's opinion, there has been a deterioration in credit quality due to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. Management's assessment is based on the extent of the arrears, the value of collateral security, the cash flow of the borrower and management's judgement. The impaired loans are included in the total loan/leases in column 1.

**Column 3 – General Provision**
A provision for loss based on management's judgement by sector whereby adverse economic trends suggest losses may occur, but where such losses cannot yet be determined on an item-by-item basis. Management takes into consideration past performance of similar loans, the level of specific provision and the existing economic climate.

**Column 4 – Specific Provision**
Indicates the provision required to reduce particular assets from their book value to their estimated realizable value. Management takes into account the estimated future cash flow of the borrower and the estimated fair value of the collateral security held of the borrower.

**Column 5 – Net**
Indicates the total loan/lease (column 1), less the general and specific provisions for loss (columns 3 and 4).

# Appendix F

## Application Statistics
## April 1, 2000 to March 31, 2001

| Sector | Total Received | | Approved | | Declined/ Withdrawn | |
|---|---|---|---|---|---|---|
| | No. | Amount | No. | Amount | No. | Amount |
| Agriculture Capital | 31 | 4,749,000 | 25 | 4,129,000 | 6 | 620,000 |
| Fisheries Capital | 28 | 3,679,623 | 25 | 3,358,248 | 3 | 321,375 |
| Manufacturing and Processing | 39 | 24,926,300 | 27 | 19,957,500 | 12 | 4,968,800 |
| Aerospace | 2 | 5,140,000 | 2 | 5,140,000 | | |
| Information Technology | 6 | 2,886,847 | 5 | 2,804,347 | 1 | 82,500 |
| Small Business Capital | 37 | 8,662,548 | 28 | 6,633,548 | 9 | 2,029,000 |
| Shellfish Capital | 2 | 177,002 | 2 | 177,002 | | |
| Blueberry Capital | 28 | 2,216,500 | 26 | 2,068,700 | 2 | 147,800 |
| Cranberry Capital | 2 | 176,680 | 2 | 176,680 | | |
| Tourism Capital | 13 | 4,678,450 | 10 | 4,094,500 | 3 | 583,950 |
| Fur Program | 8 | 518,166 | 8 | 518,166 | | |
| **Total** | **196** | **57,811,116** | **160** | **49,057,691** | **36** | **8,753,425** |